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Mastering Customer Loyalty

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Fall 2016

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Introduction

Having a solid relationship with customers is imperative if a business hopes to remain successful in a competitive market. Providing monetary or other rewards, such as physical or intangible satisfaction, like prestige, appears to be one of the primary ways a company attracts customers over time. Through research across different industries and time periods, it has become apparent that this is not the case. If a customer is purchasing from a company simply because they are receiving a discount or financial incentive, this customer is not truly loyal; they are just shopping wherever the best price is. Although this does attract customers, it does not build loyalty in the long-term. It is essential then for an organization to have an individual relationship with each customer that is founded on trust and partnership rather than financial gain for either party (Butscher 2002). Consumer loyalty can be described as, “the result of consistently positive emotional experience, physical attribute-based satisfaction and perceived value of an experience, which includes the product or services.” (Shaw & Hamilton 2015). Through the experience a customer has with a company’s product or service, a positive or negative relationship may be created. Over time, this relationship could result in a loyal customer who returns to that specific company, or it could result in a loss of a customer altogether.

Customer-supplier partnerships can be described as a relationship that is based on confidence and will mutually benefit both parties where all parties involved understand that doing business together will be safe and useful (businessdictionary.com). Through the readings completed on this topic, it has been found that loyalty programs are currently being implemented in many different industries, but few actually create successful loyalties. Instead they are successful in bringing waves of customers in during times of specials and sales, but once these promotions end, the surge in business does not sustain the same level. Without the balance

between a healthy customer-company relationship and operations, a company will not provide a sustainable loyalty program. By maintaining a relationship that also works in favor of the business's objectives, loyalty will be properly strengthened and sustained over time. Offering customers a valuable experience along with a quality product or service, while balancing the objectives of the company, will build long-term loyalty with consumers.

Creating a system of benefits for loyal customers is difficult since those customers are not extended the same offers and benefits as new customers. Loyal customers generally are turned off by this inequality. Businesses cannot give special treatment to loyal customers without backlash from new customers. However, in a recent reading of the literature of this topic, the general consensus has indicated that businesses that offer superior service to customers who continuously support the organization throughout the years are more likely to have a higher customer retention rate. Research on the target group for this project, for profit businesses, has been conducted into various facets of customer programs to distinguish beneficial loyalty programs from ones that do not improve a company's position. This research works to combine both incentives and improved service correctly so that businesses can implement a loyalty program that will lead to future success rather than an extra expense.

Loyalty program models can be defined as, "a business model used in strategic management in which company resources are employed to increase the loyalty of customers and other stakeholders, with the expectation that corporate objectives will be met or surpassed" (Menken 14). Many programs currently set in place by companies cater solely to what the customer desires: discounts, free products, and other promotions that offer immediate gratification in some way. However, this only provides a short-term benefit for the company, as will be discussed further on, since after this offer is over usually those customers continue with

their pre-promotion shopping habits. To be more effective, it is imperative that the goals of the company be combined with the desires of the customer so that the money the company is investing into their loyalty program is an expense that provides a return on investment. The effort a company puts into customer retention and loyalty must at least be matched.

Customer loyalty is measured by the strength of the relationship, number of alternatives in market, and critical episodes (Menken 17). Therefore, a company must pursue their dual objectives rather than simply looking to appease customers in hopes of them remaining loyal because the needs of the company are equally as important. It is necessary to encourage customer purchasing behavior in order for a company to succeed. However, the customer must not feel that they are viewed simply as money to the business otherwise they will not continue to purchase from that specific company. Building a relationship with the customer, where they feel more like a member of the organization, will influence that customer to continue to return to that company for whatever goods or services they provide; even if it is not necessarily the best priced option. If a customer feels connected to an organization as well as to a product they are more likely to continually remain loyal to that business throughout time.

First, maintaining an ethical business with strong customer service that focuses on satisfying customer needs will naturally draw the respect of customers. Ethics are considered during the purchasing decision of customers so it is important for a company to have a firm stance on how their business practices may be viewed ethically. Second, goods and services must be able to hold their own and have enough differentiation in a dynamic market, where customers recognize them for their superior quality or the organization's superior service that they provide. Third, differentiation is imperative for loyalty programs amongst their competition in order to gain support from customers and retain them over time. If you offer the same goods and services

as your competition it is unlikely that you will gain a loyal customer base. By providing a niche market with a unique product, or adding more ways for the company to meet more customer needs, you separate yourself from your competitors to reach a larger market segment. Lastly, having a competitive advantage in the market is also necessary because if a customer can easily purchase an alternative that is cheaper, of higher quality, or is from an organization with better customer service then it is likely that sales will not increase.

Critical Episodes

Critical episodes are events that occur that give companies the opportunity to strengthen the relationship if handled correctly, or weaken them if not responded to well (Tompkins). If a situation occurs and a company is able to assist the customer in a way that has them leaving the event relieved of any stress and satisfied with the outcome, that company and customer has built a healthy relationship. However, if a customer is disturbed by the way a company handled a situation then they are less likely to do further business with that company. These ‘episodes’ are imperative for a business to prove their worth to the customer in need since it is a ‘make or break’ moment. Respecting the customer will result in the customer respecting the company and with proper attention and follow through with promised actions the company will lead to building loyalty with customers.



As seen in the above diagram, the cycle of customer loyalty is never ending. This means that with each customer experience, their loyalty for a specific company can either be fostered or decreased. There are many aspects that can lead to customer satisfaction, which then in turn can develop customer loyalty. However, with each experience a consumer has, the cycle can be broken if a different level of the business is not up to a higher standard. Through business effort and satisfaction from employees, it allows for better interaction with customers, especially during times of stress or issue. With these instances, it provides the opportunity for the employee and company to improve customer loyalty by leaving the customer with a positive experience. If the consumer exits a business situation feeling optimistic and satisfied, they are more likely to return in the future.

Selected Historical Progression of Loyalty Programs

Sperry & Hutchinson

Over time loyalty programs have evolved in order to better support businesses and satisfy consumer needs. Sperry & Hutchinson, long considered one of the pioneers of loyalty programs, began their “S&H Green Stamps” that acted as one of the first rewards programs in 1896, which brought a brand new asset to customer service (Friend, n.d.). Through each purchase, customers were given *green stamps* that could be collected and saved. After a sum of stamps was collected, the customer was able to redeem them for items offered in the S&H rewards catalog. Typically, this “alternative currency” brought more customers into the program because they were able to gain a return through multiple purchases of items they regularly purchased (Friend, n.d.). Through this program it can be seen that the concept of providing enhanced benefits for customers that return frequently was becoming established. The original loyalty programs were

heavily involved in “gift giving” to create an opportunity cost if a customer chose to shop elsewhere (Schneider, n.d.).



Although the prices did not vary significantly from store to store during this time, a customer could understand that by shopping at a company with a loyalty program they would gain something more than just the simple transaction. This factors into the customer’s decision on where to shop but does not harm them in any way if they choose to shop somewhere else. However, this method of maintaining loyalty has proven to be faulty, due to continuous costs and expectations from every customer. Opportunity cost drives customers to remain loyal to one company since they are losing a perceived benefit with another company. By giving up other options, they want to build a better long-term relationship with one business, so that over time they gain a greater value. However, through the green stamp method, relationships are built with the points collected rather than with the company. This is because attention is placed on what they will receive back rather than supporting the business. Money does not represent loyalty,

meaning that this program cannot prove true loyalty; it may only show the desire of the customer to make a gain.

General Mills

General Mills helped to push loyalty programs further along when they established the Betty Crocker Points Catalog in 1931, which printed collectable point coupons on the back of products (Friend, n.d.). They began by placing teaspoons into boxes of cereal, e.g. Wheaties, and later attached paper coupons to Gold Medal Flour and other products. These coupons could be redeemed for items listed in the catalog provided for by General Mills, similarly to the S&H method. However, the General Mills catalog was related to kitchenware, which aligned better to their targeted group, people who cook. Eventually, this developed into the coupons and point vouchers being printed on the packaging of each product, also introducing what would later be known as 'box tops' program in future loyalty strategies. The Betty Crocker program was a triumph due to their ability to weave the program into family habits making coupon clipping a common tradition, which aided in its longevity (Friend, n.d.). In comparison to the S&H catalog, General Mills was able to offer products that matched the similar interests of consumers, which has been seen over time to be more effective in retaining customers. This explains how Betty Crocker has been one of the longest standing loyalty program to date. Continuous efforts from General Mills maintained customer satisfaction until 2006, when the Betty Crocker points catalog was discontinued (Friend, n.d.).



Companies from the 1950's on began integrating complementary rewards into their loyalty programs so that customers who were a part of it would be able to receive rewards that were useful to them. Brown and Williamson Tobacco, notoriously known for their brand Raleigh Cigarettes, printed coupons on each individual pack that could be used to pay for household furniture or related goods (Schneider, n.d.). During this time people who smoked were generally those who were more mature and settled in their lives. Being able to redeem these small coupons for items that could add value to their house or minimize their food shopping costs could be seen as very valuable. Another example of this could be seen in the 1980's where disposable diapers had manufacturer's coupons which could be used for free or highly discounted Tyco toys (Schneider, n.d.). As a parent, you would be drawn to the fact that a brand that was bought very frequently would be giving back to you every time you purchased it. Diapers are always a necessity when a family is raising a new born or infant, and they definitely are a big expense after a while. Having a company give you credit towards purchasing or receiving other items for your child is very appealing to a customer paying so much out of pocket monthly. This is a very strong example of how the company could appeal to the desires of the customer; marketers should strive to ease the lives of their customers, and this program not only satisfied the consumer with physical rewards but emotional satisfaction.



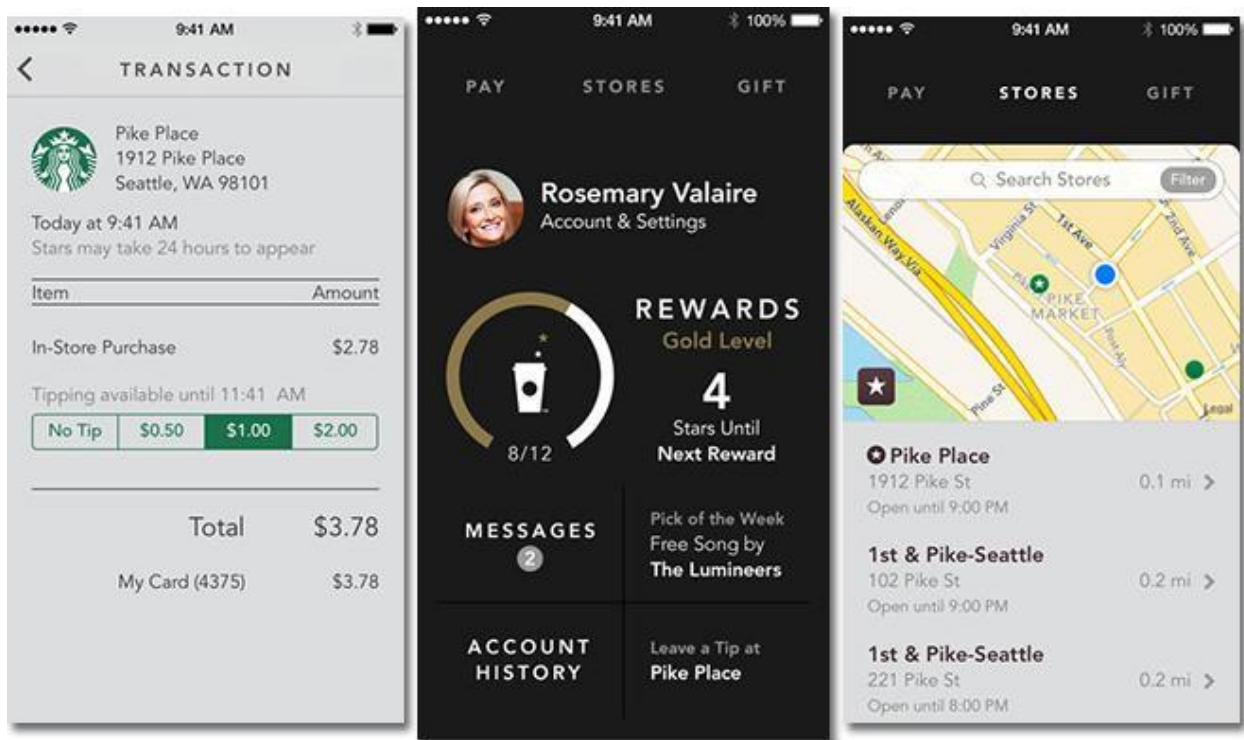
American Airlines

Changes in the legal fields also are factored into the way that loyalty programs must be implemented to help them be successful. After the Airline Deregulation Act of 1978 was created, competition within the airline industry skyrocketed due to the decrease of government control over fares (Friend, n.d.). This required businesses in the industry to appeal to customers over their competitors otherwise they would be pushed out of the market. During this time, American Airlines expanded their “loyalty fare” to offer upgrades for customers who frequently purchased from them. This included features such as first class upgrades, price-reduced tickets, and the implementation of their Mileage Plus program; which later spread further into other airline companies (Friend, n.d.). Here, it can be seen that market shifts may open opportunities for companies to reinvent themselves which continues the creative process of businesses that had settled into what had previously been established. Through these critical periods new programs may be tested that could forever change how an industry is run. This innovative move by American Airlines is considered to be the start of modern day loyalty programs which extends to our present day programs (Loyalty Programs, 2015). Something we now see everywhere in the airline industry had been introduced during a time where the industry was very competitive and companies had to set themselves apart from their competitors.

Starbucks

Accelerating to present day we have seen an explosion of loyalty programs being utilized by practically every market from airlines to super markets to zoos. One of the main organizations that are considered “masters” of the loyalty program is Starbucks since they managed to scale their business across 28 different countries (Zaryouni, 2015). When a consumer purchases a gift card, the receiver must register the gift card into the Starbucks app in order to use it, which

officially enters them into the loyalty program. By doing this it allows for convenient shopping, access to the points program, discounts on products, and advanced service. During the holiday season of 2013, Starbucks managed to gain 1,500,000 new members simply through this requirement of gift card recipients using the app (Zaryouni, 2015). Modern day technology opens opportunity for businesses to access a much wider market much faster, and Starbucks has been strategic in its methods of pursuing new customers. By attracting new generations of customers, Starbucks increased their business by 11% in the first quarter following the introduction of their new app (Roemmele, 2014). Through their ambition they have been able to penetrate new markets faster than their competitors which provide them with more opportunities to retain customers.



Loyalty for Business Purposes

One definition for loyalty programs can be explained as programs “made up of many parts, parts which work together in harmony when well designed and managed. These parts are in the communications, the rules, the processes, the gifts, the earning procedure, the spending procedure, the interaction channels, etc., all of which need to be well designed to ensure a best-in-class loyalty program” (Loyalty Programs Gone Wrong, 2011). A business’s perspective is focused on supporting their own operations while being able to satisfy the needs of their customers. Being able to understand the different departments involved in running a loyalty program is imperative for its success. Without a company having resources and balancing business objectives with customer needs, a loyalty program will not be effective. This is seen when General Mills catered their reward products towards the desires of their targeted customers. Those who bought Betty Crocker products were interested in cashing in their reward points for kitchen related items. Proper mutual benefit is necessary for a healthy loyalty program to be maintained over time, which occurs when targeted customers are satisfied along with meeting business’s objectives. With this information, it can be understood that with proper construction, a loyalty program can bring and satisfy customer’s needs, build a long term relationship between consumers and the company, and meet business objectives.

Misunderstood aspects of Loyalty Programs and Customers

Generally, it has been believed throughout different industries that a small percentage of a company’s customers were the ones who generated a majority of a company’s annual sales (Dowling & Uncles, 1997). This was because it was believed that those who purchased most from a particular business were the ones most frequently returning to support that company. Personalization of rewards builds relationships with customers since the customer is receiving

rewards specifically designed to fit their needs. If a program offers a reward that does not benefit the customer, or as has been discussed, the reward is not aligned with their needs, it will not be viewed as anything useful; therefore, making the program inefficient. By providing benefits, tangible and intangible, it shows the customer that the company is looking for the customer's best interest, which will lead to a customer having a positive perspective of the business.

However, those who generated the majority of sales could be the ones responsible for large, one time purchases, which does not constitute loyalty. In comparison to loyal customers who frequently return to a specific company to get a product or service, those who spend more do not necessarily have stronger relationships. The Center for Retail Management at Northwestern University published a study stating that only 12-15% of customers were loyal to one retailer instead of shopping around at other competitors; those same customers generated 55% - 70% of that retailer's sales (Loyalty Programs, 2015). These statements, without further research completed, seems to support the concept of designing a loyalty program solely around the desires of this specific segment of customers since they would be bringing in more than half of that company's annual revenue.

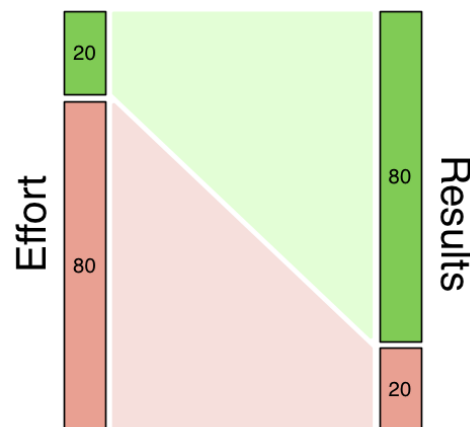
80/20 law

Originally, the 80/20 rule was utilized as a self-help tool to manage the stresses of daily life and focus on future goals. Psychologically, this rule stated that by utilizing 20% of your energy on key areas of your life, which allows you to be more productive (Robertson 2012). This is considered to be the Law of Attraction, where people who focus this percentage towards working on future objectives will relate to others doing the same. As a "20 percenter" thinker, you are looking towards improving your forthcoming, and how your uncomfortable present can result in future benefit. Robertson's piece on this explains how by minimizing the scope of effort

on life will minimize 20% of negative thinking day to day; which, in turn, results in a more positive step each day (2012). So, if there is negativity and stress around you, focusing on 20% of what is important to you, rather than considering the entire 100%, will lead to greater success than 80% of others (Robertson 2012).

The 80-20 Rule

"For many events, roughly 80% of the effects come from 20% of the causes." - Pareto



According to the 80/20 law in marketing, this law of finance explains that 80% of revenue is brought in by 20% of customers, but these “best” 20% may not be what would meet the criteria of loyal customers (Dowling & Uncles, 1997). Multibrand loyalty has always been prevalent in each distinct industry of business, so it is most likely that one company’s most profitable customer is also their competitor’s most profitable customer (Dowling & Uncles, 1997). With this, it is imperative for companies to analyze their data carefully to recognize that those that may be most profitable are not the ones that are loyal, they are giving just as much to the competition. This assists an organization determining which customers’ desires should be satisfied for best results. Also, if 20% of effort is placed into the correct customer segment, then

80% of results will be beneficial for the loyalty program, company, and customer. With this proper allocation of effort and resources, a larger margin for success is opened compared to investing into incorrect customer segments. Comparatively to the 80/20 rule of psychology, by putting most effort into most productive area of customers allows for most efficient business activity in loyalty programs.

Loyal customers pay more

It has also been claimed that loyal customers will pay higher prices for the same amount of goods and services to a degree because they want to avoid switching their loyalty to another company. This can be seen in the bank industry where customers are lured in with the promise of low initial interest rates on loans which end up being increased a few years after the customer is contracted in. However, in the consumer business markets there has been no evidence of loyal customers paying more than the average customer (Reinartz & Kumar, 2002). Contrary to this claim it has actually been found that loyal customers paid 9% less than the average customer in a particular mail-order catalog company (Reinartz & Kumar, 2002). This is true because as a loyal customer they would be more price-sensitive and know what the realistic price should be rather than what the company is proposing. “It is perceived brand value, not brand loyalty, that drives price insensitivity” (Dowling & Uncles, 1997). Being well versed in the quality and generalities of a particular industry due to their frequent purchasing from a specific company enables them to have greater buying power over situations where the average customer would not know of any difference.

Loyal customers promote naturally

Personal marketers are individuals who spread information about different brands or products through their daily lives. By wearing a favorite clothing company or talking about how they prefer Jeeps over Toyotas, a person is able to personally advertise a company simply because they like them. Loyal customers are considered to be personal marketers for the company they are loyal to, which in turn helps the company gain more brand awareness and potentially market share expansion opportunities. Building a loyal customer base provides valuable service to the company and a more productive use of resources between marketing towards proper market segments and providing rewards through loyalty programs. Brand loyalty has been strongly associated with the size of market share a company is able to maintain in an industry (Dowling & Uncles, 1997). With this, small businesses struggle since they are starting off in a worse position compared to the company, which generally results in them having fewer buyers that would spread their brand name around (Dowling & Uncles, 1997). This behavior of loyal customers has not been able to maintain a significant amount of change for business success simply through their casual advertisement of the products. It is a possible source of assistance but not enough for a company to depend on, especially smaller businesses. With about 80% of Americans involved regularly in loyalty programs, in most cases more than one, it is difficult for a specific program to make it into the conversations of customers outside of the store (Gable, Fiorito, & Topol, 2006).

Improving Programs for Businesses

Due to these misconceptions commonly made in business, the structuring of loyalty programs is often flawed. The targeted customers the programs are designed around may be skewed if the company implementing them does not properly understand who is best to appeal

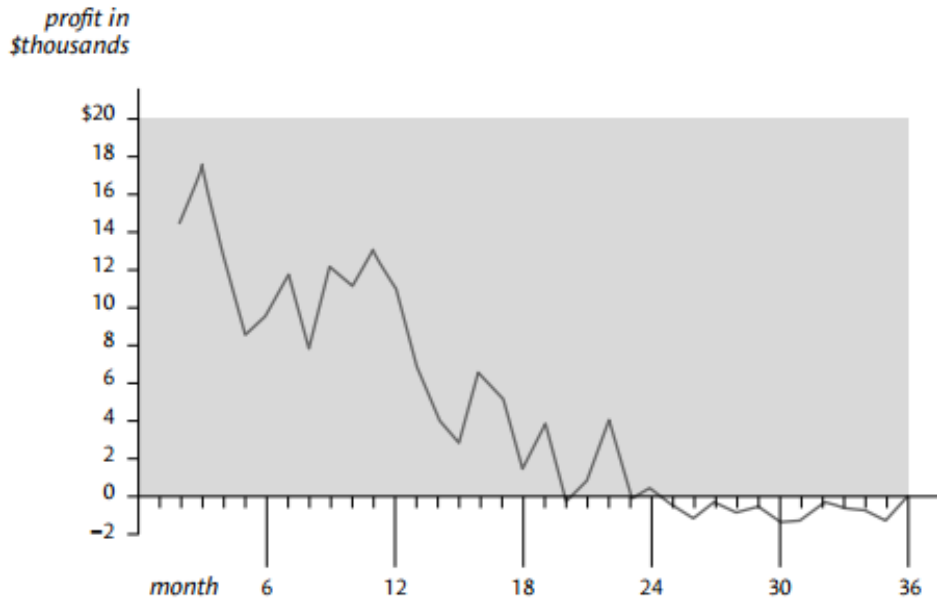
to. It is imperative for a company to choose whether their loyalty program is aimed at establishing a complete database of customers, which requires a wide range of customers; or to focus on present customers that profit the company (Butscher, 2002). An effective loyalty program is one that is designed around a specific target market that has been considered most valuable. By utilizing the objectives set by a specific business, it assists them in constructing a program that would most benefit them. With this, a smaller margin of funding is lost to customers through loyalty program marketing. “Company loyalty programs are very flexible and can cover several target groups, so it is possible to remain in touch with customers even if their habits change and they move from one target or segment to another” (Butscher, 2002). This explains that although consumers evolve over time, loyalty programs are not necessarily discredited since they are able to appeal to varying attributes of customers. Throughout time, relationships with customers must be maintained and strengthened, even through the evolution of each party over the course of the relationship.

Sustainability of loyalty programs

Generally, business sustainability is defined as “managing the triple bottom line - a process by which companies manage their financial, social and environmental risks, obligations and opportunities.” (Lexicon). This takes into account various factors that a business must balance in order to maintain a supported business over time. Simply, this triple bottom line can be divided into three areas of interest for a business, people, profit, and planet (Lexicon). By focusing on these three fields of interest, a company is able to invest time and resources into what will benefit the business and customers long term, rather than acting reactively. A resilient business is one that is capable of managing over the varying factors that influence an organization’s success over time. Whether a company faces economic downfalls, customer

evolution, or tough competition, a company which is sustainable will have the ability to remain in business through any obstacle that interferes. The World Council for Economic Development (WCED) determined that sustainable business progress is development that “meets the needs of the present without compromising the ability of future generations to meet their own needs.” (Lexicon).

Sustainability is an important factor in a loyalty program’s success over time, so that money is properly invested into a program that has the opportunity to support itself. A company must also be certain that they run a program that is sustainable over time, rather than investing their money into a program that is never able to sustain itself. It is very easy for a company to become overwhelmed through the rewards they are giving out because “offering an unconvincing 1 percent loyalty reward to customers already represents a reduction of 30 percent to 50 percent of the retailer’s net profits” (Corstjens & Lal, 2014). Prior to introducing the program to market, the marketing team must work hand-in-hand with all other company departments in order to ensure that what they are offering will not eventually end up hurting them. With low margins, a company must rely on “abundant excess capacity and exogenous subsidies” since they provide the necessary amount of money a business needs to sustain a loyalty program (Corstjens & Lal, 2014). Although small rewards do not appear to be worth it to the customer it shows that the company is solely looking to thank them for their purchases, rather than looking for their money. By providing a benefit such as 1-2% cash back on each purchase a loyal customer can see the simple gesture the company is making as a sign of gratitude instead of them looking to profit off of their transaction (Corstjens & Lal, 2014). These small moves a company makes may put them at risk for mismatched profits to expenses, but they can build loyalty since they show the dedication a company has in being there for their customers.



This graph represents the loss in profit over time when a customer segment invested into longer is profitable. After a segment decreases in buying activity, they begin declining in profitability until the company begins to lose money by investing in them. Marketing funding that is placed in the wrong segment results in a loss of profit and also a loss of funding for profitable segments. “Many nonloyal customers can be very profitable initially, causing companies to chase after them in vain for future profits”, explains the initial jump into marketing towards a segment without proper research on its projected profitability (Reinartz & Kumar 2002). Although a segment may be profitable at one point in time, it does not mean that the segment will remain profitable over different periods of time. This emphasizes the importance of properly researching customer segments to construct a better loyalty program for each segment a company is investing into.

According to Lexicon, there are certain practices which a business can follow to build upon their sustainability over time. Stakeholder engagement is necessary in order to understand the market segment one is involved in. They explain that, “engagement is not only about pushing

out messages, but understanding opposition, finding common ground and involving stakeholders in joint decision-making” (Lexicon). This considers the opinions of consumers and involves them in shaping business into what benefits them most, which is imperative when building loyal, long-term relationships with customers. Another practice that can build customer loyalty, while also maintaining business sustainability, is investing into practices that improve the environment (Lexicon). Williams and Page found that Baby Boomers “are increasingly environmentally conscious and supportive of the green movement.” (2010). Also, Millennials have been described as those who, “feel that it is a close knit world and have taken global warming, as well as global shopping, to heart.” (Williams & Page, 2010). So, if a company is able to prove their contribution to improving the condition of the environment, it would attract a wider range of customers across different generations. Appealing to various age groups is imperative for a loyalty program’s success since it does not rely on one particular segment. Multi-segmented loyalty programs have a higher chance of long-term sustainability in comparison to those that rely on one particular segment, or generation (<http://www.crm trends.com/loyalty.html>).

Differentiation between competitors

Differentiating a program from its competitors is also a necessity if a company hopes to retain loyal customers. In one industry it has been seen that a multitude of the competitors have very similar, if not identical, loyalty programs that offer relatively the same discounts and rewards. For example, Starbucks and Dunkin Donuts both have Smartphone apps that can be used to pay for transactions, collect points, and offer discounts or premium service options. However, it has been seen that loyalty programs that are not unique in some way do not bring in any extra benefits to the company implementing them. Ries and Trout explained the importance of positioning in the role of marketing since it allows a company to reach out to potential

customers in a flooded market (1986). If a company is providing the same benefits to a customer they are simply adding to the information overload and will not achieve anything. Positioning your product, and in this case the loyalty program being provided, as superior to that of the competition along with extra benefits that can be received will attract more interest than if you simply offer another of the same program (Ries & Trout, 1986). If a company is only implementing a loyalty program because their competitors run them, as a sort of “me too” program, then it will only lead to price competitions and missed opportunities for all involved (Dowling & Uncles, 1997). By offering a program that is able to satisfy a desire of the customer, without simply copying the programs of other competitors, the company will be able to mutually progress along with their customer base.

Customer segmentation

Customer segments have evolved over time and can be seen as creating different types of markets. With a larger difference between each generation it is imperative for a company to offer loyalty programs that are not a “one size fits all” program but rather offer different benefits for different customers. Appealing to the needs of specific customers will lead to better success rather than having one general loyalty program that may not fit the needs of varying consumers. Reinartz and Kumar successfully segment customers into four different categories based on the amount of time they have been customers of the company and their profitability potential (2002). Butterflies are considered to be those who have high potential to be loyal, and need to be satisfied with each transaction in order to return, so they are fleeting (Reinartz & Kumar, 2002). Barnacles are considered those most problematic since they are willing to pay only if it is right, but they have always been loyal customers; the company must appease them for the sake of loyalty but provide no big benefits (Reinartz & Kumar, 2002). Strangers are defined as

customers that are not worth the investment since they provide short-term transactions for little profit and true friends are deemed those who will stick around as profit for life (Reinartz & Kumar, 2002). Understanding these different segments is imperative in creating a multifaceted loyalty program that can appeal to all sorts of customers, and those who may change over time.

Loyalty from the Customer's Perspective

Customer loyalty can be simplified to three general factors: relationship strength, perceived alternatives, and critical periods (Menken, n.d.). In order for a business to be perceived as worthy of their loyalty, a consumer will assess these three concepts to understand the value of the company to them. The service quality model, a model often used to understand the psychological progressions of a purchaser, breaks down the behavioral pattern a shopper goes through when buying. It explains that the strength of a business relationship is dependent on the level of satisfaction a customer feels after purchase, customer perception of quality, degree of commitment, and past experiences with company (Menken, n.d.). These influences are involved in a customer's decision making process, whether to be loyal or look into other companies.

With this, a company is able to understand that there are many varying qualities that they must upgrade and maintain in order to appeal to potentially loyal customers. For example, if an organization has invested time and resources into developing a product, but then they put it in stores that lack the know-how on using the products, customers may not be retained correctly. The quality of a product is just as important as the appeal of the store atmosphere and customer service when it comes to a customer seeing the organization as a good fit to invest their loyalty. There are considered five phases of behavior and attitudinal dimensions of thought that a customer goes through when building loyalty: act of purchase, satisfaction, trust, commitment, and finally customer loyalty (Menken, n.d.). Eventually, each step can be accomplished if a

client becomes loyal. However, a company must remain cautious, so they are able to appeal to all customer levels and increase loyalty.

Perceived alternatives

Competition in the market is evaluated by the consumer through perceived alternatives so they are able to distinguish which opportunity holds the most value for them. In each market segment there are different competitors has ways of differentiating from each other. It is up to the customer to decide on which option best satisfies their needs. “The greater the availability of viable options, the lower the loyalty will be” clarified how a customer is more likely to be loyal to a company if there is less competition since there are less perceived alternatives (Tompkins, 2012). This is because a diversified market provides a larger opportunity for a customer to find a loyalty program that benefits them specifically over another offer. Even though competition encourages business it may also impede on a company’s loyalty program if they are not able to fulfill the needs of enough people in the desired amounts they are looking for. Nevertheless, by reassessing the loyalty program in place, a firm has the chance of providing benefits that will add value to a varied array of customers. If this is achieved the firm will be gain greater respect and credit for their customer services and consumers will be more likely to join.

Critical periods

Circumstances that place company-customer relationships in less than ideal situations are considered to be critical periods. This is because in times of any issue, whether it is directly related to the customer’s experience or an overall concern, a company is expected to correctly handle it to satisfy the customer(s) involved. However, if they do not do so successfully the loyalty of the customer is at stake since they are able to go to another company who could satisfy their needs better (Tompkins, 2012). A strong example of a corporation that was able to succeed

in satisfying the customer when they were not being attracted to the company is Harley Davidson. In 2007, Harley Davidson began to recognize that their customers were mature and the newer generations of motorcycle riders were not being advertised towards properly (Roese & Kompella, 2013). This created a major loss of potential profit since they were not striving to attain a new generation of customers correctly. After realizing this was a logical open market for them to invest into more, they researched factors that influenced the non-purchasing behavior of younger clients.

Through this research, they learned that the layout of their brick-and-mortar stores, bike designs, and associated “Harley” stereotype was discouraging younger consumers (Roese & Kompella, 2013). This was due to the rougher brand image Harley Davidson portrayed and advertised; a look that younger customers did not necessarily want to be associated with. Utilizing this study, Harley produced a completely unique line branded “Dark Custom”. A line of motorcycles designed to visibly interest the younger cohort of customers and a redesigning of the store outline created a less intimidating brand image (Roese & Kompella, 2013). This offered a different line specifically designed to appeal to the interests of new customers that were not being reached by the typical Harley motorcycle and “biker” image.



Harley Davidson began an innovative marketing strategy for their image where the Dark Custom line of bikes was able to be marketed as a completely separate image than the original Harley-Davidson brand. The above advertisements utilize younger, modern-styled men over the rugged models previously used in other marketing efforts. In the first advertisement they state how prices are “less than you may think” which sparks interest of consumers to look into the new line to see how affordable they may be. These changes, alongside a bike design that appeals more to millennials, speaks to younger consumers of how Harley is working for them. It is imperative for consumers to understand that a company is looking to improve the customer’s wellbeing rather than just making money. With the restructuring of a company in favor of customer preferences, consumers can see the effort an organization puts into satisfying the needs of their customers. In turn, this builds loyalty with customers since customers view this as a valuable company worthy of their business.

By completing this rebranding of the Harley brand, younger consumers could see that the firm was striving to fulfill their purchaser desires. If Harley had continued to advertise only their original, rough brand to young riders, they would be turned away from the company all together. However, since they were able to restyle an entire line for the specific desires of their newly targeted customers, Harley was able to bring in a new segment of customers. These new consumers who would appreciate the effort they invested into them, which results in their loyalty being increased to the Harley brand.

Importance of Structuring Program for Customer

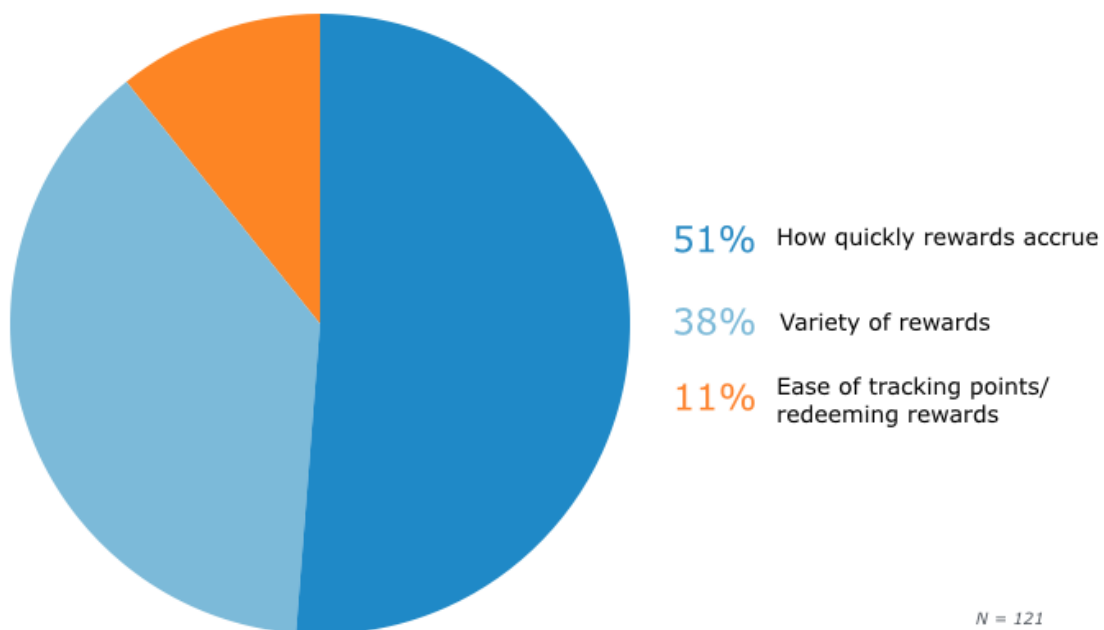
Consumers are perceptive to marketing schemes put in place by companies that are designed to appear as a loyalty building program, but actually are just looking to monetize on them. Due to this, a company must remain cautious when constructing and advertising their

loyalty programs so that they do not adversely affect their customer base. It is imperative that the customer views the program as a means to satisfy their needs as a frequent customer, rather than a ploy by a company as a means to increase profit. One way to approach this is to make the expiration date of reward points for a reasonable period of time so that the customer has the chance to redeem them (Loyalty Programs Gone Wrong, 2011). For instance, JetBlue awards frequent flier miles to members through their TrueBlue program. However, these miles expire one year after they were earned, making it an unrealistic reward for a portion of members. For the average member, it is impractical for them to afford two trips in one year, even if one of the tickets is free from redeemed flier miles. Although a flight was paid off, there are more expenses involving a trip such as a rental car or hotel stay, which make it unreasonable to travel more frequently in the period of only one year.

Due to this flaw in the program, JetBlue was criticized because the loyalty program that they had set did not improve the wellbeing of the customers involved in it. By minimizing the window available for them to redeem reward points it appeared that JetBlue was not actually looking to give back to customers. Complexity, also, is not appealing to customers. Simpler, clear cut loyalty programs are more effective than programs surrounded in a list of rules of how to redeem points (Loyalty Programs Gone Wrong, 2011). Specifically outlining the way rewards are able to be redeemed, acquired, and the opportunities the loyalty program gives will place the company in a better position in the eyes of consumers. However, it is imperative that the company follows through with these offers, otherwise respect of customers is lost.

Redesigning and reintroducing a loyalty program can be understood as necessary if the same program has been utilized for a longer period of time. However, it is imperative that the business upgrades the program with the wellbeing of the customer in mind. By removing certain

benefits it leaves the opportunity to replace it with different benefits, but this removal must be compensated with a new set of rewards. If an organization decreases the benefits offered it will only result in negative reactions from customers involved in the loyalty program (Loyalty Programs Gone Wrong, 2011). One example of this is when Starbucks redesigned their rewards program to a simple points program where each product purchased only would give points to repurchase that specific product (Loyalty Programs Gone Wrong, 2011). This meant that if a customer bought a coffee and a bagel the points would not be combined, they would receive a certain number of points for just coffee and a different number of points for just bagels. With this change, a customer would earn a free coffee after ten coffee purchases and a free bagel only after ten bagels were purchased. Rather than having the freedom to utilize points on whichever product the customer wanted, they had to collect points on each different product; this made the process of redeeming points much lengthier.



Source: Guinn, 2016

Duration of redemption is a large factor within the success of a loyalty program because as duration increases a customer is less likely to participate. This is due to the fact that with a longer period of time involved between loyalty rewards, a customer will lose sight of the relationship built with a company. If a company makes it more difficult for a consumer to gain rewards for their loyalty, it will appear that the business does not appreciate its loyal customers. The comfort of the customer should be the top priority of a business and loyalty program, however, if a reward system is made less convenient or beneficial for the customer they are less likely to become attached to the company. Simplicity is key when retaining customers. If a company makes it clear that they wish to improve the overall wellbeing of the customer and make their program with ease of use in mind, they are more likely to be successful. By making loyalty services open for customers to utilize how they see fit, without holding back rewards from customers for long periods of time, loyalty programs are more likely to succeed in a market segment.

Customer service

Whether in-store or online, customer service is an aspect of a company that adds make or break potential in retaining a customer's loyalty. In Steinkirchner's study he found that, "offering second-to-none customer service could help your business to succeed no matter what the economic climate or latest technology craze" (2012). This explains how small businesses have survived and have been passed down from generation to generation, yet still remain stable. A customer's confidence in a company is built through personal relationships, rather than just transactions (Steinkirchner, 2012). Friendly and personal interactions, useful service, and appropriate greetings influence the customer to understand the brand as personable and worthy of investment (In-Store Ideas, n.d.). Clear, frequent communication and information on

accessibility highlights the importance of the customer's wellbeing to the company since it proves they are available for the convenience of the customer (Steinkirchner, 2012).

A staff with a “pro-customer” attitude will contribute to more relationships forming between customers and those working within a company (In-Store Ideas, n.d.). This is useful in industries where customers may need company assistance throughout their decision making process, such as at Best Buy (In-Store Ideas, n.d.). Steinkirchner explains that by “talking about the merchandise itself, trends in the market, and the customer's own collecting habits” will offer the consumer with essential information on their purchase and may even lead to more sales (Steinkirchner, 2012). Community is also an aspect that must be advertised by the company. Conveying knowledge and service together may contribute to the satisfaction of the client; so by pleasing the customers individually a company is able to form a hospitable atmosphere rather than a transaction-based relationship (In-Store Ideas, n.d.). Creating a relationship that is beyond simple business activities is imperative in leaving a lasting impression on your customer base, which can lead to a lifelong loyalty of customers.

Generational Breakdown of Loyalty

Due to the drastic differences between each age group's specific needs, it is crucial for a company to understand the information involved within each generation distinction. By knowing explicit facts assigned to the majority of a generation of customers, it allows for market segmentation to be more targeted and complete. With each age range, there are different characteristics and needs that are assigned to the majority of those within it. For example, millennials require more technological interaction to remain engaged with a loyalty program. Based off of a generation's interests, historical events that influenced their lives, and core values, each generation is divided from the next. With this, companies must understand the varying

needs of each different generation in order to successfully construct a loyalty program that can benefit diverse age groups. “When a marketer factors in the different characteristics and behaviors of the generations, it should be easier to build relationships, gain trust, and close business”, explains how loyalty can be strengthened between a company and consumer if an organization is able to understand the specific details of each generation (Williams & Page, n.d.). Understanding the differentiating factors between each generation-based group assists a company in implementing an effective loyalty program that provides benefits that will improve the wellbeing of their target customers.

Traditionalists

Born during 1930-1945, the Depression Generation presently lies within the age range of 71-91 years old (Williams & Page, 2010) . Due to their upbringing through the Great Depression, WWII, and other hardship, they were built to overcome adversity and think rationally. “In terms of their characteristics, lifestyles, and attitudes, they rely on tried, true, and tested ways of doing things. They are slow to embrace anything new and distrust change.” provides background information as the group’s social tendencies as a whole (Williams & Page, n.d.). Influenced by their childhood and young adulthood, Depression Generation members are not as risky compared to other generations. Since they have experienced life where uncertainty was continuously circulating them as they matured. It affected their relationship building process with companies because they grew up through corruption and distrust within society. However, by appealing to their values of “rationing, saving, morals, and ethics”, a company is able to provide them with a stable investment of their time and resources (Williams & Page, n.d.). Through this, an organization can build trust and unity with the older members of society in a way that best fits their needs. Trust, honesty, and unity all must be communicated to this generation in order to

maintain a loyal relationship with these customers. In this aspect, simple loyalty programs implemented in brick-and-mortar locations would be more successful because they do not look to confuse the consumer with unnecessary technology or intricate rewards. This is the generation who grew up collecting S&H Green Stamps; so by maintaining a similar, simple rewards program, Depression Generation members would have their needs satisfied quicker.

Baby Boomers

The Baby Boomer Generation consists of those born 1946-1964, making them between the ages of 52 and 70 as of 2016. These individuals were born following WWII when there was a large spirit of progress radiating throughout America. Baby Boomers value, “individualization, self-expression, optimism, and “be here now”, which can be utilized to offer loyalty programs that build on quality and make experiences more valuable (Williams & Page, n.d.). Due to the large work ethic instilled in this generation they focus on continuing work often passed retirement to remain dedicated to improving their self-worth (Williams & Page, 2010). This opens a larger opportunity for business activity since Baby Boomers dedicate more time and income to an active life. With this expansion of opportunity it allows companies to “focus on building value,” rather than emphasizing affordability because, “they will be less price sensitive if they believe they are getting a superior product and good value.” (Williams & Page, n.d.).

Adding value to a customer experience can be increased through loyalty since it builds a relationship between the consumer and company long-term. As of 2016, it has been found that 74% of Baby Boomers would be encouraged to spend more with a company that runs a loyalty program (Buckingham, 2015). This shows that Baby Boomers are currently more likely to remain loyal to their favorite brands; compared to only 41% of Millennials who spend more for companies they’re loyal to (Buckingham, 2015). With this companies may choose to market

their loyalty programs towards Baby Boomers for largest profit margin, but also must figure out how to include Millennials to build long-term relationships. Since Baby Boomers are more technologically involved, meaning they engage in online communication more often, loyalty programs are able to provide more convenient options for them to make purchasing decisions. Also, online media provides an easier platform to support and foster business interactions through. It has been found that “Internet usage by Boomers is over 70%,” which opens a quicker mode of communication and individualization directly to each consumer (Williams & Page, n.d.). Capitalizing on a Baby Boomer’s ability to keep up with technological advancements allows the company to offer them a wider variety of benefits that can be used beyond a brick-and-mortar location. However, keeping it more simplistic and direct appeals to them most since it does not take up unnecessary time with each interaction.

Word-of-mouth communication is also highly valued by Baby Boomers since it personalizes involvement with an organization even more (Williams & Page, n.d.). For example, a Baby Boomer appreciates in-store experiences and customer service where employees and owners interact directly with them. This builds their loyalty because Baby Boomers associate a valuable company with the quality of service the business provides them. Whether it be through advisors or friends and family, a Baby Boomer views personal interaction of internal and external members of a company as important for it to be truly valuable. If a company is able to assure a Baby Boomer of their importance to the company, and their peers are also being satisfied through that company, the Baby Boomer is more likely to invest their loyalty long-term. With this information, a business constructing a loyalty program is able to understand the technological and personal modes of communication that must be utilized and the behaviors that must be accounted for to best satisfy their needs.

Generation X

Those considered to be Generation Xers, are those born between 1965 and 1977, which would put them in the age group 40-51 as of 2016. During their lives, they grew up with high divorce rates amongst their parents, recession, and constant shifts in society. Due to the difficult economic times this generation matured into, Williams and Page described this age group as those who are more likely to be “self-employed professionals who embrace free agency over company loyalty.” (Williams & Page, 2010). This affects loyalty programs because if a segment a marketer is pitching towards is considered less trusting than other generations then designing a program must be approached more analytically. Family is valued above everything else, but work is a strong emphasis in their lives. With this a marketer must understand the interests and dedication a Gen Xer puts into what they care about most in order to understand where to build loyalty with them.

Williams and Page stated that Generation X members are “...less prone to devote their lives to large public corporations. They will not rely on institutions for long-term security.” (2012). With this, a loyalty program must be focused on benefits rather than dedication, at first, to appeal to a Gen Xer as useful. Through this these customers can see the benefit they may gain through the program, or how it may improve their family’s wellbeing altogether. Extending a program that involves the benefit of not only the Gen Xer, but also their family, so that they are able to improve those closest to them as well. One example of a loyalty program compatible with Generation X members would be a program designed around family contribution to gain rewards. This is why General Mills’ Betty Crocker Points Program was so successful because it was a program that provided the family the opportunity to all participate. No matter which family member collected the reward stamps, they all contributed to the program. This also assists in

maintaining the family of loyal customers as they mature, because they will carry the tradition of their family loyalty over time. This would utilize a Gen Xers desire for quick gratification and results, while involving the group closest to them in the process. A company is able to satisfy not only the Gen Xer at this point, but also those closest to that individual; which would create a stronger bond of trust between the consumer and the company.

Generation Y

Generation Y, or the Millennials, are considered those who are born after 1982 up to 2000, where the first high school class graduated in 2000. Millennials are stated to be “more numerous, more affluent, better educated, and more ethnically diverse” (Howe & Strauss). As older teens and young adults, they are open to change because they know that they do not know everything, and strive to improve the future through their actions (Williams & Page, 2012). Also, growing up within the technological era has crafted a generation fluent with online resources and constant evolution of tools. This opens a larger opportunity for loyalty programs to succeed because they are able to offer a convenient, accessible program that can bring benefits beyond the store and into the homes of consumers. In addition, the line of communication will be broadened where customers can interact digitally with a company at all times from wherever they may be.

Millennials have been described as, “the most imaginative generation and they think more laterally”, which offers the ability for companies to utilize creative marketers to reach out to younger consumers (Howe & Strauss). Since millennials are most advanced and literate when it comes to technological communications, which offers the opportunity for increased interaction and more successful outreach to consumers. However, the major advancements in technology and constant connection to companies has affected how millennials judge business interaction.

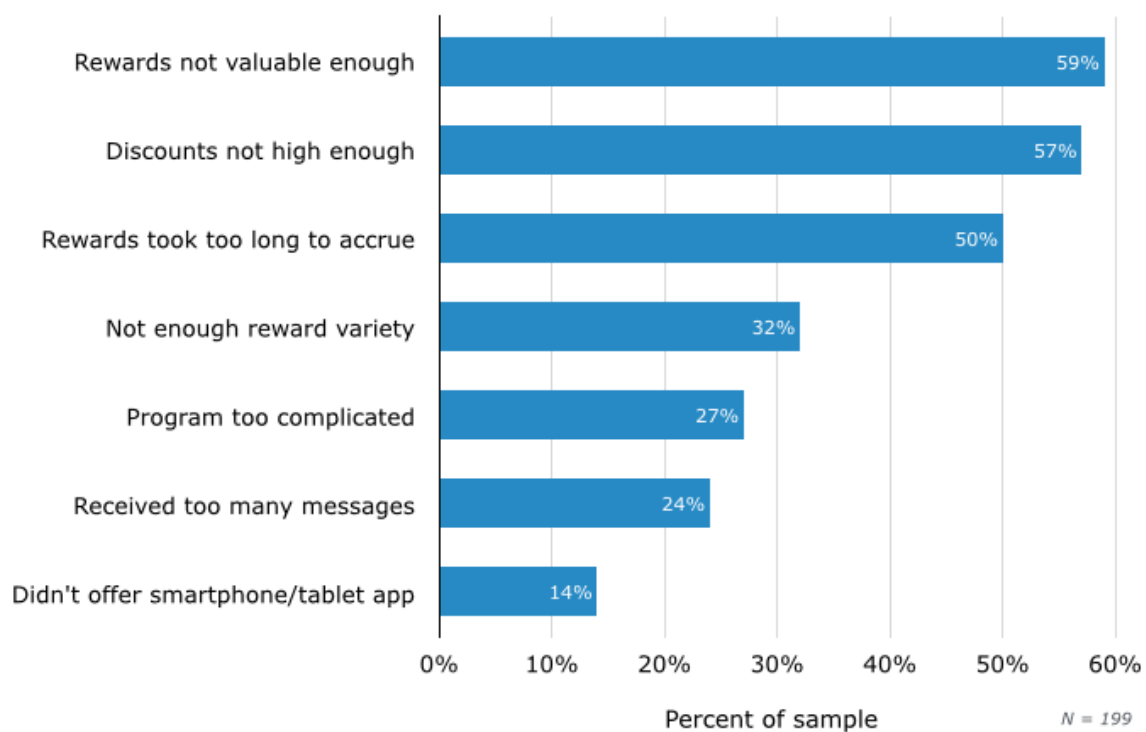
“They are self-absorbed and self-reliant with a strong sense of independence and autonomy. They are assertive, emotionally and intellectually expressive, and question everything. They are skeptical, e.g., it seems that more major media figures are scamming, cheating, lying, and exploiting than ever before,” explains that millennials may be stand offish to different marketing ploys, simply because there have been so many publicized cases of fraud (Williams & Page, 2012). With this, companies must structure their loyalty program transparently in order to build trust with millennials, who naturally have a ‘too good to be true’ attitude.

Members of Generation Y and younger are more likely to spend on themselves, since they do not yet have a family to support and are in their years of freedom before settling. Especially, if settling in the future is an option in the relative future. Naturally, with this mentality, they are interested by what the public considers to be popular and are constantly looking for the newest edition and status level (Williams & Page, 2010). By updating consumers on the newest products that are trending, they will be informed of what they may want to purchase and how to maintain their status amongst their generation.

The following graph represents reasons that loyalty programs have not worked as well for millennials in the restaurant industry. A study concluded by SoftwareAdvice was that 50% of millennials quit restaurant loyalty programs because it took too long to accrue enough points to redeem on rewards (Guinn, 2016). With this it shows that duration affects the likeliness of millennials to remain participants in loyalty programs that do not show results quickly. Another reason restaurant loyalty programs fell through for millennials was because they did not offer rewards that were worth maintaining participation. Although loyalty programs may not be taking on a customer, millennials have been found to be involved in the most loyalty programs out of all other generations. It has been reported that 96% of millennials are involved in some form of

loyalty program (Guinn, 2016). This is because millennials search for the biggest discounts rather than the most-valuable relationships with a company; so they are involved in loyalty programs, but may not actually be loyal (Guinn, 2016). For loyalty programs, they must utilize online and interactive programs that provide instant gratification, such as offering reward points that do not take more than a couple weeks to redeem a benefit. Also, they must be structured to offer the biggest discount possible in the beginning, and then work to build a relationship with a customer as they mature with the company.

Top Reasons Millennials Quit Loyalty Programs



Multi-Generational Loyalty Programs

With such varying factors that influence each generation, it is vital for businesses to understand each generation separately. In order to properly market a loyalty program as beneficial to varying age groups, a company must know what appeals to each segment, and how to best communicate with them. Behavior and technology competency varies between the diverse generational groups, so a company must be knowledgeable on what best works for each different group. From here a business must work to combine or create different benefits that apply for each segment they are looking to build loyal relationships with. For example, by offering an online loyalty program, or a program on smart phones, it allows convenient accessibility of communication for generations more inclined to use technology. However, also translating this into an in-store program offers a wider reach to customers who may not be technologically savvy.

Shaping the modes of communication is also important when it comes to best marketing loyalty programs to different generations of consumers. Whether it be through tangible advertisements, like newspaper ads or billboards, or through intangible advertisements, such as in-app or online ads, each must be considered when analyzing how to market and run a loyalty program with varying age ranges. Williams and Page stated that companies designing loyalty programs must “find ways in which the generations are similar and add these elements into ads, products, marketing strategy, etc. For example, online games, satellite radio, and smart phones have elevated mobility, community, and choice in any campaign's list of key considerations.” (2010). These must be acknowledged as permanent change since technology is becoming further involved in each generation as they mature.

However, it is also important that a business maintains specific applications of a loyalty program to specific customer segments. In order to build personal relationships with each varying generational group, it is important to market benefits that are specific to their desires and interests. Due to the increase in technological advancement, a company should strive to design their loyalty program to older generations who may have been left behind because they do not understand each intricacy of online loyalty programs (Williams & Page, 2010). For example, creating simpler online loyalty programs, or dividing certain benefits to online usage and other benefits to in-store programs maintains loyalty for all age ranges of customers.

Due to the behavior and tendencies of millennials, loyalty programs must be fostered in Baby Boomers and those below the age of 18 (Williams & Page, 2010). This is because millennials currently seek out the best deal, rather than looking for best value and customer-company relationship. However, Baby Boomers are more focused on valuable, ethical companies that are worth their investment. The youngest generational group can be utilized to build relationships, so that when they mature they are already attached to a particular brand, and will remain there when they go through periods of less expendable income. Altogether, Baby Boomers and Generation Zers can be considered the largest opportunity for building long-term relationships with, and loyalty programs should be designed to fulfill their desires. In the meantime, millennials should still be appeased through technologically advanced avenues of communication, while also providing them with discounts to maintain business. This way the best targeted age ranges are being invested in for loyal relationships, while business is maintained with the generation not currently as interested in relationships over saving money.

Personally, I found this conclusion true after polling 200 millennials on the question of ‘which apps do you have on your phone?’ The participant was offered the options of Dunkin

Donuts, Starbucks, both, or neither. It was found that 53% of the millennials polled did not have either app on their phone. This supports the tendency for the millennial generation of consumers to simply look for the cheapest deal rather than enrolling in a loyalty program. Twelve percent of participants replied that they had both, which provides contrast for the lesser amount of millennials who are more active with loyalty program enrollment. This data can be analyzed by companies to distinguish the variation within millennial behavior, and possibly choose a specific cohort to market towards rather than millennials as a whole. By doing this it would allocate resources to millennial consumers more interested in participating in loyalty programs and allow for specific benefits to be provided that fit their desires. The Dunkin Donuts loyalty program was favored over the Starbucks program by 9%, which could provide further information on what works best for millennials. For example, Dunkin Donuts may be preferred over Starbucks due to Starbucks' higher pricing strategy, or possibly because it is quicker to gain rewards using Dunkin over Starbucks. Through each different survey more information can be gathered on millennials to better understand which segment of the generation is best to market towards, and which others are not worth the investment.

Small Business vs. Large Corporation Loyalty

Due to the drastic differences in customer outreach, modes of communication, and resources, small business much approach customer-company loyalty programs differently than a typical chain company would. Williams and Swanciger found that 64% of early adopters to small business loyalty programs ran effective loyalty programs which brought in more money than expensed to fund the program (n.d). With this, it shows that although loyalty programs may be different for small businesses in comparison to larger companies, they can still be designed and run successfully. Implementing a loyalty program in small businesses acts more as a thank you to

repeat customers, which builds a stronger relationship between the company and customer. This is because when customers frequently return to a small business, there is greater opportunity for personal interaction between customers and those heavily involved with the business. Through this interaction more information can be exchanged, such as the background of the business owner to the customer or feedback from the consumer that could improve the company.

Compared to larger businesses, small companies can be more responsive to customer interaction since it can easily go directly to owners and workers who can assist; whereas, larger companies may give a customer the run around. With this, small businesses have the advantage of shaping their business to the desires of the customer, which in turn builds stronger associations with customers, and leads to long-term relationships in the future.

Loyalty may be intimidating to smaller businesses because they may be considered to be a large expense, simply because larger companies may invest a hefty fortune into it. However, the amount of money an organization puts into a loyalty program does not necessarily increase or decrease the value of the program. There are various ways smaller companies can pursue and run a loyalty program without being run into the ground. For example, a company is able to use a third party, digital reward, mobile app that allows customers to collect online 'punch cards' (Williams & Swanciger, n.d). PunchTab, Perkville, and Belly offer this reward service that is convenient for the customer, yet cost effective for the business providing it. Although this appears to be a small effort by the company, it saves on printing services and resources, while also providing the customer with a more convenient way of utilizing a reward program. By providing this program it aids in, "increasing sales, helping them stand out and developing a stronger relationship with their customers", which benefits the consumer and the business on a long term scale (Williams & Swanciger, n.d). Through the utilization of technology, it opens

more opportunity for a small business to launch a more cost effective loyalty program; while also bringing convenience and benefits directly to their customers.

Additional Loyalty Program Options

<i>Third-party loyalty programs</i>	<i>Rewards Network</i>
Typically operates on a frequency model (points earned for each visit)	Registers your restaurant within a network of other restaurants
Customers check in with a card or mobile app at your restaurant to earn points	Customers opted into the program dine anywhere in the network to earn points
You choose your program's rewards and point totals	Points are awarded to customer's linked rewards program (airline miles, fuel rewards etc.)
Provides you with access to customer purchase histories, contact information and other data	Third-party provider does most of the legwork to get customers into your restaurant
Managed by a third-party loyalty company; may or may not integrate with your POS system	Customers may become loyal to the program, but not necessarily to your restaurant

Source: Guinn, 2016

Not all loyalty programs have to rely heavily on technology, however, small businesses are able to utilize in-store tactics more since they interact with customers more regularly than larger companies. For example, a tea and tapioca shop in California called Mr. Green Bubble ranked customers on a whiteboard by the cash register on who was the “Number One Fan” (QuickBooks, 2016). This strategy was successful because they were able to engage customers and motivate them to return to the store throughout time. Dedicated customers can find new interest in the challenge and competition provided by this simple program. By keeping customers active it continuously motivates interest in the targeted market segments and transforms business activities into a competition.

The Restructuring of Starbucks' Loyalty

Starbucks' success in retaining and growing their global loyal customer base through smartphone apps has established them as a role model for all brands (Zaryouni, 2015). As "masters" of loyalty, Starbucks implemented their loyalty program into 28 different countries worldwide, establishing themselves as leaders in customer loyalty. However, with recent reconstruction of their program, loyal customer needs may have been overlooked in order to reach a larger part of the market. Throughout the years, Starbucks has fluctuated between extreme praise and disinterest with their customers. As Starbucks struggles to balance customer needs and their desire to gain a larger market share, customer loyalty has been built and disrupted throughout time. With this, one may consider Starbucks successful due to the milestones in revenue their loyalty program has helped them achieve. However, their program falls victim to the common flaws of customer loyalty. As mentioned earlier, it is easy for a company to misinterpret customer loyalty and the ways that they can best build it. With the common flaws of loyalty that Starbucks has fallen victim to, Starbucks has the opportunity to improve their program to become a more stable leader in customer loyalty.

Primarily, Starbucks must reanalyze the strategies they are currently using to retain their customers, since they have shifted away from what brought the customer the tangible and intangible benefits they appreciated. Originally, Starbucks' immediate success and increase in customer loyalty was due to their integration of gift cards into their mobile app. This instantly registered consumers into the loyalty program, making it more convenient for them to maintain their loyalty and visualize the perks the program gave them. With this, it resulted in 1.5 million new loyal customers in 2013 alone (Zaryouni, 2015). However, since then Starbucks has redesigned their program multiple times in ways that have not satisfied their targeted customers.

Recently, Starbucks has released a prepaid Starbucks Visa card, which will allow all cardholders to receive Starbucks reward points with each purchase using the card (Yakuel, 2016). This decreases the costs of Starbucks' bottom line, but it requires for loyal customers to make 56 more visits to receive the same rewards they do now (Yakuel, 2016). Although this broadens rewards to a larger customer segment, it minimizes the benefit long-term loyal customers already receive. This reflects negatively on Starbucks because it is making decisions to improve their financial position rather than supporting the customers who are valued most. In terms of sales dollars, Starbucks' loyalty program has succeeded in bringing money in for the company, but they are not properly improving the wellbeing of their loyal customers.

Through their constant restructuring, Starbucks is able to bring more money in for themselves while they are not necessarily offering better benefits for those involved in their loyalty program. Psychologically, the customer "earns" more points, when the point system has actually been restructured so that the duration of redemption remain the same. With this, it tricks the customer, in a way, to believe they are earning more with each purchase, when the number of stars needed to gain a reward has also been increased. This can be understood as unethical or unjust to the loyal customers who have remained with Starbucks over time who are not having their needs placed above the company; which is what a proper loyalty program strives to do. It is difficult to tailor benefits for a large scale of consumers, but negatively impacting customers that have stood by Starbucks for a long period of time only hurts the brand. If a company is seen turning against their most valued customers, they not only lose out on current loyalty, but it also influences future customers from investing their loyalty into Starbucks.

Starbucks relies heavily on technology since their entire loyalty program runs on their smartphone application. However, this limits their market generationally because different

cohorts appreciate in-store loyalty services. For example, since Starbucks only utilizes mobile devices to run their loyalty program, a Traditionalist may be deterred from participating since they are not as inclined to use the latest technology. Also, Baby Boomers are more inclined to participate in a loyalty program that interacts through face-to-face transactions with employees rather than an app (Williams & Page, n.d). This method also results in less people having the capability of participating due to the lack of them owning a smart phone. A majority of the population owns a smart phone presently, but those who do not are not given the opportunity to join Starbucks' rewards program. Constantly having to reload money onto the app may also be considered an annoyance to the consumer, but this allows for Starbucks to pay less in transaction fees with credit card providers. With this, it may be beneficial for Starbucks to offer an in-store loyalty program option, alongside the app they have in place. By opening the opportunity for individuals to gain benefits without the usage of a smart phone, it may build stronger relationships with more customers.

The reward math behind Starbucks may also seem faulty to the consumer. Stars are gained through each purchase which accrue until they can be redeemed for a reward. However, each transaction provides the customer with only one star, no matter if they bought a small coffee or \$50 worth of products. With this it puts customers at the disadvantage because reward points do not equate to how much they purchase, which can extend the duration of receiving a reward. As mentioned in the "Importance of Structuring Program for Customer" section, the duration to redemption can discourage people from participating in the program because it does not seem as worth it. Also, customers may have negative feelings at the fact that they receive the same rewards as another customer who does not spend as much at Starbucks. With this, Starbucks should restructure the points system they have in place, because by offering smaller

benefits to customers paying more out of pocket it leaves a negative impression. Giving reward points based on how much a customer purchases will be more successful because it will prove to the customer that their needs are being considered primarily, rather than the business's desire for profit.

Conclusion

Through the research gathered and conducted, customer loyalty has been dissected so that businesses are able to better understand how to approach it. A fundamental part of business is satisfying the desires of customers, but it must be done efficiently in order for a company to function effectively. Loyalty programs aid in retaining customers long-term, which offers companies the opportunity to get information on what the market is looking for and shape their brand and products towards this need. By focusing time and resources on loyal customers it enables a company to more efficiently run their business, which allows them to be more stable. However, as discussed previously, this must be done tactically in order to receive the best reaction from customers. It seems that many companies are capable of implementing certain aspects of loyalty programs that would provide their customers with a rewarding experience and influence them to return to that particular company. Concluding, this analysis on loyalty programs and the flaws found in most past and/or current programs, there is now a clearer understanding on what aspects of the programs can be applied to businesses within any industry.

Past loyalty programs have given us an outline on the various loyalty tactics that have been utilized and how they have evolved to function in present day programs. Prior to the implementation of technology in loyalty programs, brick and mortar stores were the primary agent involved with running these programs. These programs were grounded in high quality customer service and utilized mostly stamp programs that customers collected on each product

purchased. Although these programs began decades ago, they still prove valuable to current businesses. In-store customer service is necessary in working with older generations, who have been found to judge heavily on whether the business employees and owners can interact and perform. Every customer should be treated respectfully every time that they interact with a company, but Traditionalists and Baby Boomers value a company based on their employees' effort to assist them. As mentioned, in-store loyalty programs are determined to be beneficial to a company since they can assist in making a program multigenerational. By providing a form of in-store loyalty program, it allows for older generations to be satisfied, resulting in them returning more frequently and being more loyal. Current and future loyalty programs should structure their loyalty programs accordingly. Since customers are interested in not only intangible benefits, through social media, but also tangible benefits, which are provided in the physical location of the brand, past loyalty programs can be utilized in developing a strong in-store program.

Segmenting customers from the overall market is necessary for a company to structure a sustainable loyalty program. Understanding the differences between generations aids a company in positioning their program to the market and which ways to tactically work with customers. Technology and communication must be considered when interacting with different age groups associated with the loyalty program. A successful program must have components of in-store loyalty and online loyalty if they wish to broaden their program for all ages of consumers. A small business loyalty program should offer certain in-store loyalty perks, like a competition for most loyal customer on a score board, as seen with the California tea shop that held a competition for Number 1 Customer. Along with this they can offer an online program, such as a digital point accrual app, so that more of the consumer market can be reached. Communication

must also be constant, yet strategic, in order to keep the customer informed, but not pestered with the constant information of earning rewards. Technology opens the opportunity for clear, interactive communication with customers in and out of the store. With this, businesses are capable of informing customers of in-store promotions and online deals, but should do so sparingly, like a couple times per week, so they do not overwhelm the customer. This will assist the customer in knowing what is genuinely useful to them, and minimize the amount of communication that will go unseen. Involving this convenient technology with in-store service can increase customer loyalty and lead to greater customer retention.

Certain flaws in loyalty programs have been found which can be avoided by companies redesigning or creating loyalty programs for their customers. One example is that companies who have determined the top 20% of customers who are the most 'loyal' may have it wrong. Many of these customers in the top 20% of perceived loyalty may in fact have multibrand loyalty. One customer who spends most at a particular store may not necessarily be loyal, they could just be wealthier and have the ability to shop at different brands across a product segment. With this, companies must analyze their consumers more closely so they are able to segment their market into targeted customers they should customize their loyalty programs for and pursue. Segmenting customers correctly ensures that a company invests their time and resources into the cohort of consumers that is more likely to be retained. Another common misunderstanding of customers is that loyalty results in customers paying a higher price than normal customers. This is not true because loyal customers have a greater buying power. Since loyal customers frequent a store more often than the average consumer, they are aware of price changes, and will not settle for unreasonable increasing in prices. Loyal customers should be

treated respectably to show their importance to the company and community of the business, rather than expecting them to stick around if the service and prices change.

Lastly, businesses should not solely rely on loyal customers to market their products to save money on advertising their brand. It has been found that loyal customers do not provide sufficient or wide-reaching marketing help to support a company. With this, companies designing loyalty programs should correctly analyze the customers they wish to market towards and treat them as valued customers, rather than placing other responsibilities on them. Expecting a customer to work for the company will result in negative feedback and possible loss of loyal customers, so it is important that an organization treat loyal customers properly in order to retain them.

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